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SUCRE: A MONETARY TOOL TOWARD ECONOMIC COMPLEMENTARITY

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SUCRE:
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The international financial crisis has sparked debates on possible reforms and new mechanisms needed in the International Financial Architecture (IFA) in order to deter the consequences of this crisis and prevent future ones. The G20 has emerged as a consultation mechanism in which northern powers seek support from the most prominent emerging economies of 'the South' in order to pursue policy articulation. The G20 has in turn created a new institution, the Financial Stability Board (FSB), at the same time as it has strengthened the position of the International Monetary Fund (IMF). Rather than focusing on rebuilding the IFA, or reforming the structure of existing mechanisms, discussions amongst the G20 have placed emphasis on setting so-called *prudential standards* in order to better articulate policy concerning the world's largest economies.

Nonetheless, criticism has emerged with respect to the legitimacy of this forum and its willingness to attend to structural problems in the global financial system. As a result of the weakness of the new regulations, an important development in this reform debate has been the fragmentation of emerging proposals into regional and national components (Helleiner, 2010; Woods, 2010). Countries such as China and Russia have voiced their discomfort with the position of the dollar as a reserve currency in the global economy, while most emerging powers participating in G20 negotiations have expressed fewer concerns with many of the pro-market initiatives that seem to benefit them in the short run. Even when the limitations of the current global reforms debate are pointed out by critical analysts, regional initiatives tend to be overshadowed. The South American region is no exception and has been promoting the emergence of new mechanisms at the multilateral level which could reorganize the regional financial architecture.

Efforts to question the hegemony of International Financial Institutions (IFIs) in the region date from the attempt to create the Banco del Sur in February 2007. This was the product of initial conversations between presidents Hugo Chávez of

Venezuela and Néstor Kirchner of Argentina. Ecuador, Bolivia, Uruguay, Brazil and Paraguay formally joined the initiative soon afterwards. Upon first mention in presidential meetings, the Banco del Sur gained legitimacy as a possible replacement for the Bretton Woods institutions and their satellites in the region.

Precisely because of the varying intentions and premises that drove different governments into this initiative, negotiations on creating the Bank generated important debates as to what kind of new financial architecture should be built. Venezuela and Ecuador proposed the creation of various institutions to progressively supersede the presence of Bretton Woods multilaterals in the region. In the midst of these talks, the Ecuadorian government proposed the creation of a New Financial Architecture (NFA), based on a development bank, a regional reserves fund (*Fondo del Sur*) and a monetary union that could eventually evolve into a common currency. The idea was supported by critical scholars in the region who helped shape it into a viable proposal to South American governments (Ugarteche, 2008a).

Political support for the idea of an NFA was received from South American governments in the Quito Initiative, approved in May 2007 as part of the Banco del Sur negotiations (Marshall and Rochon, 2009; Ugarteche, 2008a). It was finally agreed that the Banco del Sur would be a development bank. However, because of a delay in the Bank's creation and capitalization, the Bolivarian Alliance pushed for the creation of the Banco del ALBA in 2008, also as a development bank. That same year, Ecuador became a full member of the Bolivarian Alliance for the Peoples of Our Americas – Peoples' Trade Agreement (ALBA-PTA) and, at the end of the year, SUCRE (*Sistema Unificado de Compensación Regional de Pagos* – Unified Regional Clearing System) was approved as the common currency among its associates (with the exception of the Caribbean island nations).

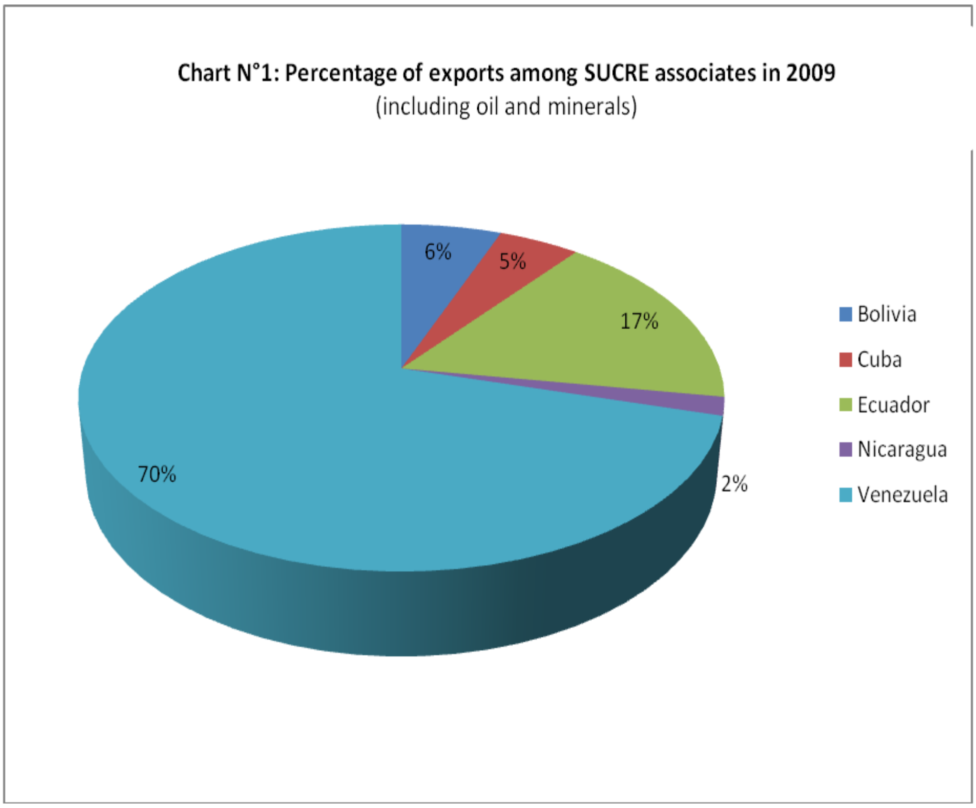
In October 2009, the SUCRE Constitutive Treaty was signed during the 7th Presidential Summit of the ALBA-PTA by the presidents of Bolivia, Cuba, Ecuador, Honduras (which then signed out of the agreement as a result of a *de facto* regime imposed in 2009), Nicaragua and Venezuela, and was formally constituted in February, 2010. The proposal originally represented an attempt to progressively reduce dependency of the ALBA-PTA member states on the US dollar in intra-regional trade. This clearing mechanism, established by the ALBA-PTA member states in response to the global capitalist crisis, was also a key tool for encouraging further economic integration in this regional alliance via its attempt to build on new productive relations between rather disconnected economies, in accordance with ALBA's principles of cooperation, solidarity, reciprocity and respect for national sovereignty.

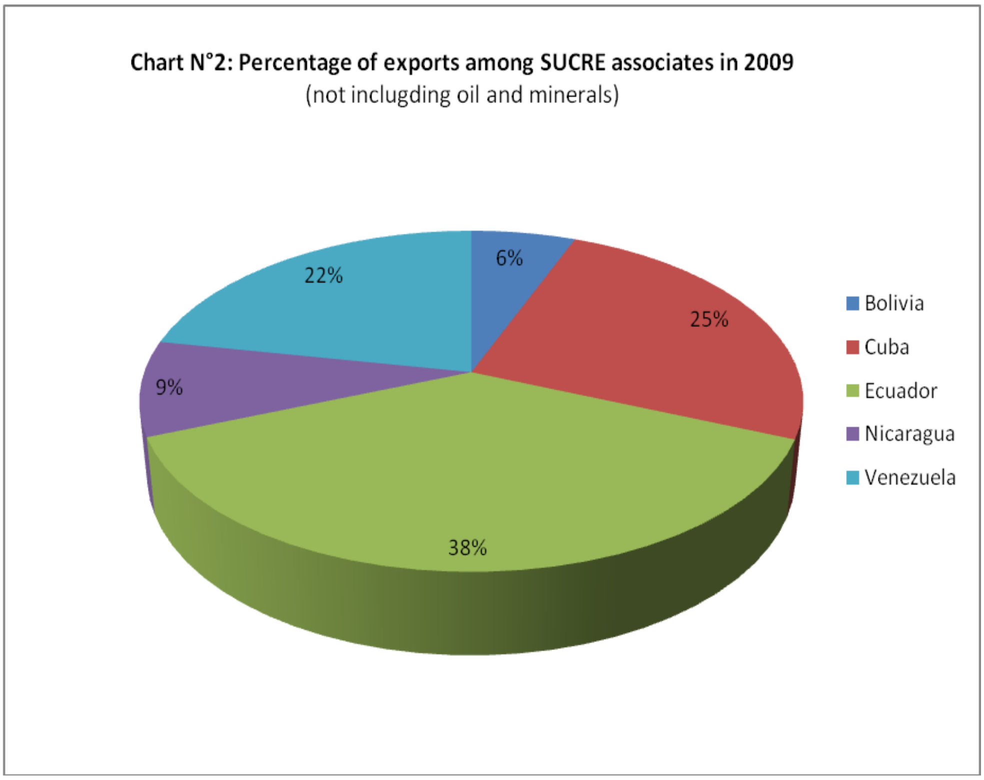
SUCRE is composed of a Regional Monetary Council (or CMR, its Spanish acronym), a common unit of account called the 'sucre' (lowercase), a Central Clearing Compensation Chamber and a Regional Trade and Reserves Convergence Fund (Acuerdo Marco, 2009). *Based on John Maynard Keynes' original ideas on the international monetary system, SUCRE is intended to provide stability to the region's monetary system as well as strengthen its integration capacity and productive complementarity.* However, it currently faces the challenge of increasing the export base of economies which have considerably low diversification and almost nonexistent physical integration.

This paper seeks to understand the theoretical backgrounds that underlie the System, while raising the main issues the region faces with respect to trade and external dependency. The argument will unfold as follows: first, we discuss the main issues that need to be tackled regarding regional integration in the midst of this initiative; second, we give a theoretical account of Keynes' proposals as they relate to SUCRE; we then summarize details of the operation of the mechanism; and finally we draw some perspectives for SUCRE in its regional environment for the discussion on economic integration.

SUCRE: facing issues of trade, dependency and productive diversification

SUCRE was launched in a universe of regional trade worth 70 billion dollars with the inclusion of the oil exchange, or slightly over 10 billion dollars excluding oil and minerals. This constitutes about 5% of the trade between the entire region and the rest of the world (ALBA-PTA, 2010). If the trade in hydrocarbons is included, Venezuela is clearly the main partner in the region, accounting for over 70% of exports in 2009, equivalent to over 50 billion US dollars (ALBA-PTA, 2010; see Chart N° 1). If oil and minerals are not included, Ecuador becomes the region's main trading partner, with 38% of exports, followed by Cuba and Venezuela with 25% and 22% respectively (ALBA-PTA, 2010; see Chart N°2).





Although the ALBA-PTA agreements have helped generate trade among members (between 2003 and 2008, trade grew fivefold with respect to the previous decade), commerce in the region is still rather marginal. For instance, both in terms of volume and value, Venezuela's main trading partners in the South American region continue to be Colombia, Brazil and Argentina. Nonetheless, between 2000 and 2006, the volume of trade between Venezuela and Cuba increased significantly, from 12 million US dollars in 2000 to 2 billion in 2006 (ECLAC, 2010). Under the guiding principles of ALBA, bilateral trade between Cuba and Venezuela has been enhanced, which already implies compensated payment mechanisms. This is the case for most oil exchanges, which have either been financed over a period of 20 years under the Petrocaribe Agreement or compensated by medical and other professional and technical support provided to the Venezuelan government by the Cuban state.

According to López (2008), Latin America maintains a radically biased trade pattern when compared to the rest of the world, continuing its "specialization in raw materials in production and exports with a limited manufactured industry". This is worth noting, because previous economic research on South American monetary integration has concentrated on assessing the possibility of fulfilling Mundell's Optimum Currencies Areas theory, rather than first creating feasible mechanisms for actually building productive and financial complementarities (López, 2008; Sevares, 2007). For these authors, it is essential that a way to endorse macroeconomic coordination and monetary integration in the region be previously rooted in productive and technological complementarities.

The role of Latin America and the Caribbean with respect to integration with the rest of the world has clearly been established as that of commodity provider to the industrial center. As noted by Marini, this is at the root of power asymmetries between formally independent nations, as productive relations are "modified or recreated in order to ensure the amplified production of dependency" (Marini, 2007: 102). As a result, instead of forming the basis of national economies, the "center" of production linkages is built from industrialized countries. Thus, "Latin American production does not depend on its internal consumption capacity for its own realization" (*op.cit.* : 121). The internal demands of the 'working classes' are basically subordinated to the transfer of their surplus value to the world economy, while increasing profits in the upper classes contribute to creating expectations that are not satisfied with domestic production but with imports from the core instead. The legacy of dependency throughout the region has significant relevance in the economic relationship between the region and the more industrialized north.

Despite integrationist rhetoric from governments and social actors since independence was achieved, Latin American and Caribbean countries have been economically structured to supply raw materials to industrial centers, particularly to the US. This has led to the dramatic phenomenon of *commoditization,* where most countries' exports are largely primary products. The cases of Venezuela and Ecuador are the most pervasive; over 90% of their exports are raw materials (mainly minerals and hydrocarbons) (ECLAC, 2010). These economic relationships intensified during the years of economic boom at the beginning of the present century, mostly due to rising commodity prices and skyrocketing growth and consumption in China. Even though the Prebisch-Singer premise on the tendency of declining terms of trade is currently being empirically questioned, the general issue of Latin American and Caribbean *dependency* on reproducing the northern-industrial economies of the capitalist system still seems valid. The growth of China has not only allowed regional trade to be boosted, and with it access to foreign currency, it has also raised the old issues of technical and productive dependency.

The question here is not so much how to "de-link" from the dynamics of the globalized economy, but rather how to *build new linkages* between southern productive sectors, which are statist in nature, from private business and/or grassroots, communal or cooperative enterprises. This is the purpose of setting up possible mechanisms to re-direct some of the primary and semi-manufactured trade *within* Latin America and the Caribbean in order to establish niches of "autochthonous" industry. In this respect, according to SUCRE advocates, Venezuelan petrochemicals and fertilizers, semi-processed Nicaraguan woods and Bolivian textiles, among many other examples, may offer opportunities for new regional chains of production. Indeed, SUCRE has explicitly not focused on oil and hydrocarbons exchanges, which represent nearly 80% of regional trade. This shows the intention to transform the terms of intraregional trade (Cerezal et al., forthcoming).

Last, but not least, we should take into account that SUCRE also functions *alongside* other clearing mechanisms in the economic region, such as the *Asociación Latinoamericana de Integración* (ALADI) and other payment mechanisms in the Caribbean under the Caribbean Community and Common Market (CARICOM). Looking beyond the question of SUCRE's technical competitiveness towards other payment systems initiatives, the fact that it draws deep inspiration from certain principles of the Keynes Plan makes it appear to be a genuine complementary initiative that should be definitively affirmed as an innovative pretext for putting the focus back on the productive roots of trade, in short, on real economy.

The Keynes Plan and its application to an alternative monetary system

As we noted above, monetary integration in the region has usually been analyzed through the lens of Mundell's Optimum Currency Areas theory, which states that it is only when trade increases and productive cycles become more interconnected and diversified that monetary union and macroeconomic coordination appear as feasible steps towards facilitating integration procedures and reducing trade costs (López, 2008; Sevares, 2007). Indeed, Peruvian economist Oscar Ugarteche (2008b) proposed the creation of a monetary union for South America under the principles of Mundell's Optimum Currency Area theory, despite the creation of the Banco del Sur. His research showed that after weighing each economy, based on its GDP and trade (both intra- and extra- regional), there was relative stability in the regional currency basket when compared to the euro and the dollar. However, this idea has been criticized in arguments based on the lack of trade among associates, strong asymmetries between the region's economies and their scarce diversification (Mussachio, 2008).

Far from Mundell's approach, inspiration for SUCRE comes from the so-called Keynes Plan, the proposal presented by the English economist of that name at the Bretton Woods Conference in 1944. In an attempt to reshape the international commercial and monetary system, Keynes proposed a set of measures and institutions aimed at reducing the economic fluctuations that had "destroyed the security of our way of life and damaged international peace" (Keynes, 1943: 472). The proposal was designed to lay the groundwork for a trade, monetary and financial system that would tend to balance countries' current accounts, at the same time limiting capital flows only to those related to trade and direct investment. According to Keynes, in order to do this the system should be based on the existence of the following elements:

- A non-metallic international currency in order to prevent the emergence of key currencies.
- A sufficient amount of this international currency to meet liquidity requirements arising from international trade flows. The total amount of the

currency could be expanded and contracted to control deflationary or inflationary pressures.

- A pre-established method for determining the exchange rates between each of the national currencies.
- An internal mechanism to stabilize the international financial and trading system, putting pressure on any country whose balance of payments became too far above or below the equilibrium level.
- A central institution to regulate the system and give technical support to other institutions in charge of the planning and regulation of global economic activity.

In Keynes' proposal these elements led to a monetary union which had two main pillars: first, an 'International Clearing Union' (ICU), and second, the creation of an international bank currency called the 'bancor'. This currency, whose value would be set in terms of gold, would be used for international trade operations, although national currencies would continue to be used within each economy. Each country would have an account with the Clearing Union, which would score all transactions, both for imports and exports. Every central bank would pay its overall balances from international trade, whether as debtors or creditors, in bancors.

Keynes' aim was to generalize "the essential principle of banking" at the level of international balances: the equality required in a closed financial system between credits and debits. This would make it impossible to withdraw funds from the system, thereby avoiding difficulties in financing deficit countries. Therefore, any transfer of funds would necessarily be to the clearing account of another member of the system. In fact, any country could make payments in advance to another member of the system, ensuring that the returns generated would remain within the system. However, as Keynes stated, the ICU would not be an institution for long term lending, which could only take place through other international institutions similar in nature to current development banks.

At the same time, Keynes established that one of the core functions of the International Clearing Union was to "discourage creditor countries from leaving unused large liquid balances which ought to be devoted to some positive purpose" (*op.cit.*: 473). According to this English economist, "excessive credit balances necessarily create decisive debt balances for some other party" (*Ibid.*). Underlying this statement was the idea that both debtor and creditor countries were guilty of international financial imbalances. If this idea had been accepted by international postwar institutions, it would have involved a radically different approach towards dealing with indebted economies.

Keynes developed the two previous points in a series of conditions to be met for implementing the system:

- First, while it was the member states that reached agreement on the initial values of their currencies in terms of the bancor, the value of this in terms of gold would be set by the Steering Committee of the ICU.
- Once the currency values had been set, each country would be required to allocate a quota of bancors to determine its ability to borrow from its account at the Clearing Union. Every country would have to accept the payment of foreign currency loans owed to them in the new international currency.
- To promote the maintenance of a balanced balance sheet, Keynes proposed establishing a 1% fee, taxing the balance of debtors and creditors of each country below or above a quarter of its quota.
- The Executive Committee would also have to limit the excess allowed over the quota, possibly imposing measures on the countries (both in trade policy and as monetary and financial measures) to reduce that excess, whether a deficit or a surplus.
- Finally, while it would be possible to pay gold to the Union to obtain credit in bancors, countries could not demand it in return, i.e., gold would be convertible only in one direction (the second great principle that guided the proposal).

Thus, in addition to allowing the money supply to be adapted to the real needs of liquidity, the system would prevent the emergence of a key currency. What is more, once set up, the ICU would become a multilateral clearing system of trade balances between different economies. The Union would govern the settlement of balances between central banks, not between exporting and importing companies or between their respective banks. Moreover, governments could impose exchange and capital controls within their borders. While Keynes believed that the system did not necessarily require these measures to work, he thought it would help to reduce short-term speculation and capital flight, while restoring international loans and credits "for legitimate purposes" (*op cit.*: 484).

Since the current financial and economic crisis has emerged, some economists (see for example Costabile (2007) and Piffaretti (2009)) have raised the need to reform the international monetary and financial system in accordance with principles stated by Keynes in his day. According to these principles, such reform would be the only way to end the inherent instability of the financial architecture that has been built over the last three decades. The Keynes Plan would guide the creation of a multilateral clearing institution, avoiding the shortcomings of a monetary and financial system based on the dollar standard. This could be achieved, inter alia, by imposing the need for adjustment on both the surplus and deficit countries, eradicating the risk of economic contraction derived from focus adjustment in the latter.

If application of the Keynes Plan for reforming the international monetary and financial architecture of the early twenty-first century is to be considered, it is necessary to take into account several basic features that differentiate the current architecture from that faced by Keynes: first, the existence of a key currency, which is an important source of privileges for the hegemonic power; second, the disappearance of exchange patterns based on some kind of link with gold; and third, the exorbitant growth of short term international financial-monetary exchanges, i.e., for purely speculative reasons.

The first of these characteristics underscores the need to reform the international monetary system by creating an international currency and a supranational institution in charge of regulating the money supply for the benefit of all countries, thus preventing seigniorage. The second feature implies that the principle of convertibility in one direction that Keynes proposed for gold, should be used with international currencies, especially the dollar, to allow for the gradual departure of central bank reserves and their replacement with the new supranational currency-credit. The final characteristic outlined involves the need to link the creation of the monetary system to controlling speculative financial flows through the institution of exchange controls and capital movement, which is what Keynes had in mind.

If the international monetary and financial system is to be re-built on an alternative basis, these considerations should be implemented via a series of general measures:

- The establishment of a supranational currency (already mentioned).

- The creation of a supranational institution in charge of the system (also mentioned).

- The establishment of an international clearing union for the receivables and payment obligations of each country's international trade balance. This would reduce the financial needs they all present at the end of a given time period.

- The setting up of a system of fixed exchange rates between the supranational currency and national currencies, which would only be used for domestic economic relations.

- The formation of a mechanism for reviewing exchange rates when deficits and limits are exceeded.

- The implementation of a mechanism for limiting the surplus and deficit of each country, subjecting those surpluses and deficits to a fixed rate and stimulating reinvestment of the initial funds by the creation of a genuine development bank.

- The regulation of exchange transactions and international capital movements in order to reduce them to those directly linked to trade transactions and direct investment.

These measures could also be applied to the creation of a regional monetary integration project based on the Keynes Plan proposal. In this case, however, a number of other considerations that make it difficult to implement in a narrower context should also be taken into account: First, Keynes designed his proposal mainly for a closed system, though he took into account the possibility that not all countries would be integrated into the architecture. Therefore, adaptation to the level of region would involve considering how it would work in an open system in which individual countries maintained trade, monetary and financial relations with third economies. In this respect, the first major difference is that the supranational currency would have to live alongside currencies from other countries and regions. Apart from raising the issue of an external convertibility system, this would be a major problem for system management if there were fixed exchange rates within it. The problem is further aggravated by the current context, in which a large majority of countries maintain flexible exchange rate regimes, thus increasing opportunities for triangular currency arbitrage.

In an open system, there are also obstacles to the introduction of mechanisms for limiting surplus and deficits in the clearing accounts. Each country would be able to use credits obtained in the system to pay any outstanding balances outside it. While Keynes had in mind the possibility of maintaining a "dual position" in the system within a particular group of countries associated with the Union (Keynes, 1943: 482), nonetheless, the sense in which it was conceived was the opposite: regional integration within a worldwide clearing union. In this case, a threefold problem arises: that of having to secure external convertibility of the currency, that of being unable to force the total reinvestment of surplus balances within the system, and that of having to reconsider the imposition of a tariff on the part of those stocks that exceed certain levels. Ultimately, all this would be difficult to achieve within an open system of international economic relations. However, this problem does not prevent the proposal from being adapted to a regional framework.

Operative adjustments and their implications for overall System consistency

As we have seen, the creators of SUCRE did not expect to see an Optimum Currency Area in their economic zone (Cerezal et al., forthcoming). On the contrary, SUCRE advocates defend the goals of the mechanism as redefining the monetary and exchange policies that have prevented the long-term development of its associates. Moreover, up to now, SUCRE has implied no fiscal constraint whatsoever.

Agreement on SUCRE was reached only among countries belonging to ALBA-PTA. The sucre serves as the unit of account for valuing, registering and clearing transactions held between central banks of member states in real time. It is in effect an electronic currency under which payments settled by the central banks are denominated to operate through the Central Clearing Compensation Chamber. It does not yet propose to become a medium of exchange for private agents or a store of value. The System is used only for trade operations and associated trade services, so any capital transference is excluded. For the time being, the creators of SUCRE have decided to leave capital transactions out of the mechanism because much of the flow of Latin American capital is intertwined with speculative activities and is generally connected with northern stakeholders. However, services, and even some forms of capital movements (i.e. remittances between nationals residing and working in other associate nations), are not completely ruled out for the prospective evolution of the mechanism.

In a nutshell, in its initial stages SUCRE was designed to operate "administered" trade between countries, driven mainly by member states, with the purpose of building on trade balances that could generate new chains of production in the region and widen the countries' export base. The goal is to expand its capacity to include various productive sectors, especially small but also medium and large businesses, by channeling exchanges through the sucre.

The System is intended to save foreign currency from regional transactions, which will basically be settled in national currencies and accounted for in sucres. This gives the Central Banks more room for maneuver with foreign reserves and decreases vulnerability to US dollar seignioriage, at the same time as it begins to build confidence in intraregional trade and allows for future industrial and complementary trade policies to be enhanced.

The presence of each national currency in the basket is defined by the formula:

$$\bar{N}_i = \bar{W}_i \, Tc_{0,i}$$

Where: $\bar{N}_i$ *is the amount of national currency from the country.*

$\bar{W}_i$ *represents the relative weight of i national currency in the basket;*

$Tc_{0,i}$ *is the exchange rate value from the last period considered for settling payments with respect to the US dollar.*

The value of the basket and the presence of national currencies is weighted by each country's GDP with respect to the rest, while intraregional trade is pondered with the rest of the region as well as trade with the rest of the world.

$$w_i = 0,3\frac{averageGDP_i}{\sum_{i=1}^{n} avergeGDP_i} + 0,4\frac{average\ IT_i}{\sum_{i=1}^{n} average\ IT_i} + 0,3\frac{average\ ET_i}{\sum_{i=1}^{n} average\ ET_i}$$

IT: Intraregional Trade in the SUCRE zone

ET: Extraregional Trade of SUCRE (with the rest of the world)

Venezuelan's currency, the bolívar, will represent nearly 60% of the basket, followed by the Ecuadorian dollar, with 25%, the Cuban peso (CUC) and the Bolivian boliviano.

In order to integrate the pondered national currencies in the basket, the SUCRE had to use the US dollar as the currency pivot. Notwithstanding the US dollar, which is part of the basket by virtue of its condition of legal tender in Ecuador, no other regional currency has a strength comparable to that of the German mark in the regional context of the ECU prior to the introduction of the Euro. This is mainly due to the unquestionable importance of the US dollar in regional trade and the nonexistence of functional bilateral currency markets (Cerezal et al., forthcoming).

This lack of bilateral currency markets would prevent SUCRE associates from defending the values of their currencies or that of the sucre in the midst of a speculative attack on them. This accounts for the decision to recalculate the value of the unit of account daily (adjusted to its market value $Tc_{0,i}$ $Tc_{1,i}$, $Tc_{2,i}$ and so on). Indeed, if the path of the sucre differed too much from that of the dollar, this misalignment could open up exchange rate breaches in bilateral exchange rates between the dollar and the sucre, which in turn would encourage firms and nations to import using the sucre and export out of it, or vice versa.

$$sucre^0 = \left[\sum_{i=1}^{n} \frac{\bar{N}_i}{Tc_i^0} \right]$$

Where:

$sucre^0$ is the first value of the sucre

$\bar{N}_i$ cf ante

Tc_i^0 cf ante

In any case, daily recalculation of the sucre implies neither high volatility nor instability, firstly, because the three main currencies in the basket are ruled by fixed exchange rates, and secondly, because certain mechanisms have been put in place for readjusting the quantities (N_i) of national currencies with respect to the sucre in case of sudden revaluations or devaluations. The essential intention again relies on making the System trustworthy for potential commercial actors. A parallel international currency basket was also established to work as a future implicit anchor on the world's five main reserve currencies and then progressively detach the trajectory of the sucre from the dollar.

$$sucre = \left\{ \left[(1-\alpha) \sum_{i=1}^{n} \frac{\bar{N}_i}{Tc_i} \right] + \left[(\alpha) \sum_{j=1}^{m} \frac{\bar{N}_j}{Tc_j} \right] \right\}$$

Where 0 ≤ α *≤0,5*

The currencies considered in the second basket are the five currencies most used around the world for international reserve investment: the US dollar, euro, sterling pound, yen and Swiss franc.

The CMR assigns a set amount of sucres to each country every six months for trade transactions (see Table 1 for current assignations), while each central bank provides the equivalent sum in its respective national currency to the CMR. It is important to bear in mind that the assignation of sucres is based on the prospected trade between countries and their historical trends.

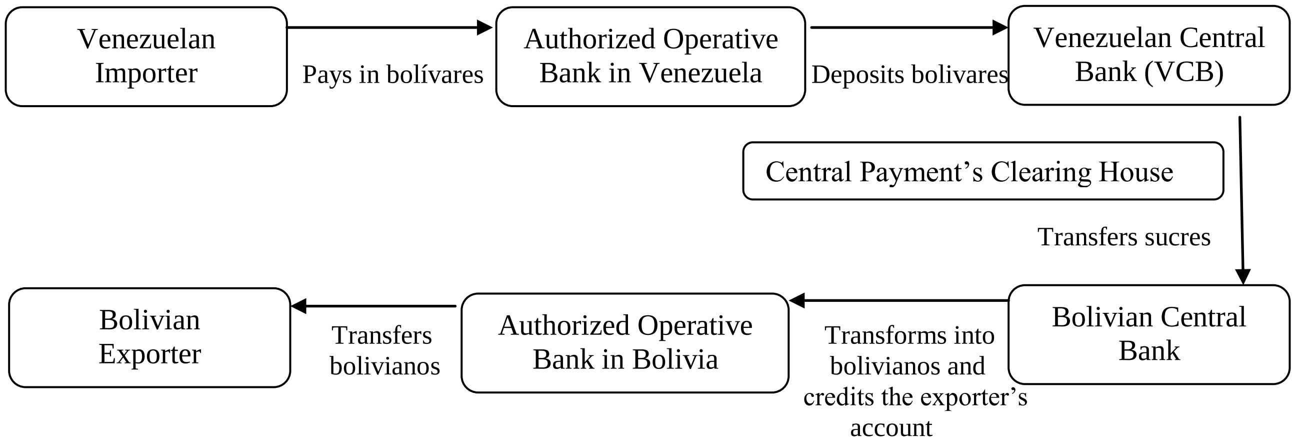
Table 1: Current sucre assignations (Nicaragua has not yet started)

Country	Assignation
Bolivia	20,800,000.00
Cuba	20,000,000.00
Ecuador	24,800,000.00
Nicaragua	19,200,000.00
Venezuela	67,200,000.00
Total	**152,000.000.00**

Initial exchange rate: 1 SU = 1.25 USD. Current exchange rate: 1 SU = 1.2506 USD

For a six month period the exchanges and operations through the central banks in the respective countries would only be settled through SUCRE. Figure 1 illustrates how the System will operate

Figure 1: Example for an import of a Bolivian good by a Venezuelan Firm

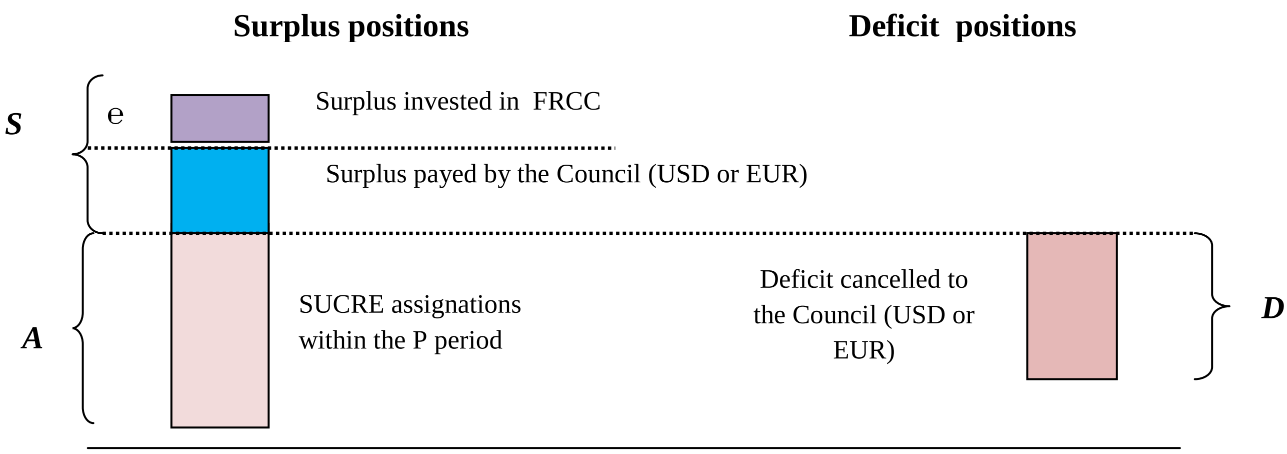


The Real Time Gross Settlement System ensures rapid transfers between the central banks and the granting of certain facilities in case of temporary overdrafts. For trade agents, the advantage lies in not having to go to the exchange market or to pay interest on their operations within SUCRE. Moreover, during each semester, deficit nations can 'triangle' trade from third parties to surplus nations. Finally, the central banks of the deficit countries may 'borrow' sucres from surplus partners or from the CMR itself. At the end of the period, the CMR will consider the multilateral positions of the countries in the Central Clearing House and order final payments: those countries with a trade surplus within the System are allowed to receive the surplus sum in US dollars at the end of the period, which implies that in order to settle their debts, countries with a trade deficit must purchase new sucres to relocate their initial assignation.

As a result, the coordination of trade policies is also encouraged. A healthy balance of trade amongst SUCRE members consequently increases the capacity for each state to save foreign currency at the end of each semester. One of the principles defended by ALBA agreements is to promote trade without affecting the satisfaction of peoples' needs, which emphasizes the need to build trade and *productive* complementarities. National trade policies will also be oriented towards stimulating trade within SUCRE; at the same time countries will ask the CMR to increase their respective assignations for further semesters. In short, SUCRE works with fixed amounts of emissions (assignations) during each semester, preventing monetary imbalances in the System at the same time as it adjusts its dimensions to follow the path of trade expansion in the area.

Another constituent part of the SUCRE is specifically designed to help increase this interconnectedness of production. The Regional Trade and Reserves Convergence Fund (*Fondo de Reservas y Convergencia Comercial,* FRCC) has been set up, not only as an entity to support the functioning of the Compensation Chamber (as a way to finance deficits and possible after-period defaults), but also as a mechanism to fight trade asymmetries among member-states. The FRCC is vested with the responsibility of investing in productive endeavors within countries in order to help increase their regional export base under a financial trusteeship. It can provide loans in foreign and national currencies, taking into consideration the developmental and productive priorities in the nation concerned. It was originally constituted with funds from member-states and the possibility of re-investing funds from part of a country's surplus has been considered. The CMR may define a ratio limit between the surplus and the assignation of sucres; once this limit is passed, overly surplus countries must invest sucres in the FRCC, destined for the productive apparatus of deficit countries (see Figure 2).

Figure 2: Balance clearing after six-months period



S:Surplus, A: Assignation, D: Deficit. For 2 to *n* countries, D=S, e is a top value of the "S/A" ratio defined by the Council. In this case S/a>e so the country will invest this part of its surplus in the Fund (This mechanism hasn´t been activated yet).

This again links SUCRE to the ability of its members to formulate productive projects, specifically those of national governments in association with their respective trade agents. The main condition for financing is initially to generate export offer in the SUCRE area, opening up a range of possibilities, from the financing of productive structures to storage and trade facilities. Opportunities are given to small and medium firms, which could hold out the promise for a new configuration of regional trade. Ecuador, for instance, openly plans to link SUCRE with local and communal currencies and trade systems. In order to strengthen this productive financing strategy, support from the Banco del ALBA and possibly from the Banco del Sur is imperative.

Soon after the agreement was signed by member states, it was progressively ratified by the national parliaments and the System started to operate simultaneously. In the case of SUCRE, political will within state apparatus has definitely played a positive role in its development, particularly when compared with other emerging institutions such as the Banco del Sur. In 2010 the first transaction was settled between Cuba and Venezuela, in which the former imported rice from the latter (Aporrea, 2010). Months later, another operation between Bolivia and Venezuela worth over 5 million US dollars took place (the sucre was valued at a rate of 1.25 US dollars). Bolivia exported 5 tons of soy oil to Venezuela, equivalent to slightly over 4 million sucres (Sucrealba, 2010). In its first year, over 10 million US dollars were settled through the System. Notwithstanding this low figure, out of the more than 30 million US dollars exchanged in the first quarter of 2011, Ecuador alone has traded goods through the sucre for over 17 million sucres in 9 transactions (Sucrealba, 2011). While it is still modest on a trade scale, the amount exchanged in 2011 could reach 300 million sucres. Although private companies have begun to use the System, the great public purchasing power of Venezuela still exerts the most muscle, which may be equilibrated by its strong petrochemical potential, from which Bolivian and Ecuadorian agricultural systems could easily take advantage. What lies at stake is productive complementarity.

As envisioned, SUCRE is a modest yet ambitious initiative. It is clearly growing despite facing some important challenges ahead, such as difficulties related to diversification and interconnectedness. Further exchanges between distant and relatively less diversified economies such as Bolivia and Nicaragua, whose trade pattern is minute, have yet to be seen. On the other hand, the impulse given to the initiative by countries like Ecuador and Venezuela provides opportunities for helping to create a regional “domestic market” for productive activities. However, its capacity to develop and strengthen together with other regional mechanisms will be fundamental in overcoming historical issues of dependency and development.

SUCRE in the universe of integration: the need for a regional financial architecture and the pretext for a discussion on integration

Any attempt to advance monetary integration in a region that is rather dis-integrated has to set productive complementarity as a central goal. The creators of SUCRE are aware of this and have established a series of institutional and technical mechanisms to tackle this imperative. The main challenge for the future of this mechanism is for SUCRE to establish itself as a trusted way of enhancing trade, which at the moment remains insignificant. While state-owned enterprises will be the main protagonists of the mechanism in its initial stages, private business may help improve its dynamics in the future. Underlying questions remain with regard to the kind of development the region is willing to endorse. The role of SUCRE is in large part the promotion of a certain type of cooperative development rooted in solidarity and complementarity, rather than in competition. This may be the reason why SUCRE will remain modest in the quantitative sense, with the preference being for qualitative growth. Economic inclusion of small and medium productive and trade agents could be highly innovative for the payment system itself, as well as for the whole perspective of the ALBA.

In this way, SUCRE definitely differs from the principles and assumptions of the Optimum Monetary Area as it uses the unit of account as a pretext to increase trade, rather than consolidate a common market to introduce a common currency. In other words, the common currency created by ALBA members will focus on serving production-led economic growth, rather than the development of a single trade schedule. SUCRE may not recognize the macroeconomic convergence principle of the Maastricht Treaty as an option for a single currency. It will be interesting to wait for other Latin American countries to organize their methods to increase the use of national currencies in trade and financial operations. UNASUR could be an appropriate universe in which to grasp the possibility of reproducing the “sucre”.

The capacity to boost the export base of all economies in the ALBA region is dependent not only on the role that the FRCC may play as part of SUCRE, but also on the strength of the Banco del ALBA as a development institution born out of ALBA principles. In this case, the conditions for complementarities have to go through policy considerations coordinated at large in the new integration mechanism.

Needless to say, activation of the Banco del Sur is of vital importance, as it is yet another regional institution that may help the constitution of a new financial architecture in the region. UNASUR is still a young institution of integration, born out of political intentions, and the Banco del Sur may well provide it with a base from which to further encourage productive chains within the region, with a larger margin of sovereignty for nation-states under a more democratic decision-making framework.

Environmental issues and social concerns are significant here, precisely because of the central role that infrastructure projects may play in integration mechanisms. Physical integration in the region is still an open debate, in which the South American Regional Infrastructure Initiative (IIRSA, to use its Spanish acronym) remains an option defended by multilateral institutions and the Brazilian government. Much criticism has been raised about this project because of its export-oriented bias and the negative impact it may have on the Amazon Rainforest. Social movements and governments, such as those of Bolivia, have been very vocal in their opposition to IIRSA.

Other cooperation mechanisms may be enhanced in the form of reserve funds, enhancing already existing institutions such as the Latin American Reserve Fund (*Fondo Latinoamericano de Reservas*, FLAR) or even promoting the creation of new ones under the umbrella of UNASUR. SUCRE's relationship with other payment mechanisms may help increase cooperation between regional integration institutions. Such is the case of the Local Currency System (*Sistema de Monedas Locales*, SML) established by Brazil and Argentina, which has been used by hundreds of firms to a total of more than one billion US dollars (SELA, 2010, IPEA, 2011). It has mainly benefited smaller and medium enterprises (in 2010 over 70% of transactions amounted to less than 50,000 US dollars). The relative success of the SML is in sharp contrast with the decreasing effectiveness of traditional clearing mechanisms such as ALADI, which attracts only 8% of the trade in its regional universe, of which the vast majority is made up solely of Venezuelan imports.

The role of the public sector represents a new perspective both in discussions regarding the payment system and in regional alliances. The renewal of state responsibility begins with the way that SUCRE may inquire for clear and solid commercial policies and some kind of public trade administration, formerly (and currently) banned by IMF principles. The emergence of public participation plays a role in the new payments system (both SUCRE and SML) through which the best options for channeling regional trade are found. Constant pressure from the private sector to reduce transactional costs now has to be combined with new principles and positions affirmed by public institutions, such as the CMR, in order that the payments system can be understood and decisions can be made on how it could contribute to productive development, rather than function solely on behalf of the current trade and financial system (Kokkola, 2010).

If there is a proliferation of exchange in sucre, which would imply greater guarantees for the participating parties, it may well expand its operations beyond the ALBA-PTA. Clearly, trade policies that promote productive complementarity are key to advancing monetary and financial integration. The commitment by ALBA-PTA members to create an economic zone of shared development in 2009 is essential. Part of its initial work to enhance trade in the area is focused on taking an inventory of new economic factors that could benefit from redefined trade policies, and also on facilitating trade by reducing technical obstacles and making information easier to access for member states and commercial agents. Despite it being in its initial stages, this agreement is a promising tool for providing a base for sustained growth in the SUCRE. Another dimension could be explored through the inclusion of personal and services transactions, in order to narrow the gap between the System and populations in ALBA countries. This would require further development of capital controls so that neither speculation nor instability would be generated by new sucre emissions.

Until now, ALBA-PTA agreements have been centered on the political will of the leaders of participating countries, and policies have mostly been based on social issues concerned with bringing about practical solutions to the pressing problems affecting the majority of the population. Whether their results endure over time depends on the capacity to create conditions for structural economic transformations that can persist even with changes in the leadership of any given participating country. Thus, the emergence of SUCRE and other structures of economic integration and policy cooperation should be welcomed as a sign of a substantial response to the critical economic problems of both the region and the world.

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